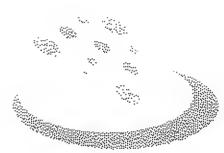




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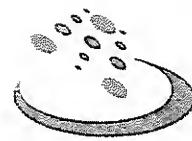


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# **Audit report**

**AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE LIMPOPO PROVINCIAL  
LEGISLATURE AND THE COUNCIL ON MUSINA LOCAL MUNICIPALITY**

10 November 2016



AUDITOR-GENERAL  
SOUTH AFRICA

The Accounting Officer  
Musina Local Municipality  
Private Bag X611  
Musina  
0900

30 November 2010

Dear Sir

**FINAL REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF MUSINA LOCAL MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2009**

1. The above-mentioned final report of the Auditor-General are submitted herewith in terms of section 21(1) of the Public Audit Act, 2004 (Act No. 25 of 2004 read in conjunction with section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) and section 121(3) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003)(MFMA).
2. In terms of section 121(3) and 127(2) of the MFMA municipalities have to include the audit report in the municipality's annual report for tabling.
3. Until tabled as required by section 127(2) the final report is **not a public document** and should therefore be treated as **confidential**.
4. As your municipality will be responsible for publishing the attached audit report as part of the annual report, you are required to do the following please:
  - Submit the final printer's proof of the annual report (which includes the audit report) to the relevant audit manager of the Auditor-General for verification of the audit-related references before it is printed or copied. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
  - The signature at the end of the hard copy of the audit report should be scanned in when preparing to print the report. The typeset initials and surname of the signatory, with the words 'for Auditor-General' on the same line, as well as the place and date of signing and the logo should also appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.
5. Please notify the Provincial Auditor-General (Business Executive) well in advance of the date on which the audit report, or the annual report containing this audit report, will be tabled at the municipality.
6. Your cooperation to ensure that all these requirements are met would be much appreciated.

Yours faithfully

For AUDITOR-GENERAL  
Auditor for public accounts

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Reference: 02284REG09/10

Enquiries: Pierre de Ruth Africa

**AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE LIMPOPO PROVINCIAL  
LEGISLATURE AND THE COUNCIL ON MUSINA LOCAL MUNICIPALITY**

**REPORT ON THE FINANCIAL STATEMENTS**

**Introduction**

1. I have audited the accompanying financial statements of the Musina Local Municipality, which comprise the statement of financial position as at 30 June 2010, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages xx to xx.

**Accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and in the manner required by the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Auditor-General's responsibility**

3. As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996) and, section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a

basis for my audit opinion.

### **Opinion**

7. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Musina Local Municipality for the year ended 30 June 2010 and its financial performance and its cash flows for the year then ended are prepared, in all material respects, in accordance with the South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and in the manner required by the MFMA.

### **Emphasis of matter**

8. I draw attention to the matters below. My opinion is not modified in respect of these matters:

### **Restatement of corresponding figures**

9. As disclosed in note xx to the financial statements, the corresponding figures for 30 June 2009 have been restated as a result of an error discovered during 2010 in the financial statements of the Musina municipality at, and for the year ended, 30 June 2009.

### **Fruitless and wasteful expenditure**

10. As disclosed in note xx to the financial statements, fruitless and wasteful expenditure to the amount of R28 534 was incurred, as interest was paid to suppliers on overdue accounts.

### **Irregular expenditure**

11. As disclosed in note xx to the financial statements, irregular expenditure to the amount of R17 884 137 was incurred as follows:

- R9 004 554 due to conditional government grants utilised for purposes other than intended for.
- R3 031 061 as a result of the municipality funding its municipal entity, Zelpy Letsema 1903 (Pty) Ltd, which is a forbidden activity in terms of section 164 of the MFMA.
- R350 000 due to payments that were made to the providers in excess of the approved contract or quoted amount.
- R790 478 due to deviations that were approved for invitation of written price quotations and/or competitive bidding from accredited prospective providers even though it was possible to comply with the requirements in terms of SCM regulations 17(1) and 36(1).
- R4 708 044 due to contracts that were extended or renewed to such an extent that competitive bidding processes were being circumvented in terms of section 116(3)(b) of the MFMA.

### **Additional matters**

12. I draw attention to the matter below. My opinion is not modified in respect of this matter:

### **Unaudited supplementary schedules**

13. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

### **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

14. As required by the PAA and in terms of *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*, I include below my findings on the report on predetermined objectives, compliance with the following key laws and regulations and financial management (internal control).

#### **Predetermined objectives**

15. Material findings on the report on predetermined objectives, as set out on pages xx to xx, are reported below:

#### **Non-compliance with regulatory requirements**

##### **Existence and functioning of a performance audit committee**

16. The Musina Local Municipality did not appoint and budget for a performance audit committee, nor was another audit committee utilised as the performance audit committee, as required by regulation 14(2) of the Municipal Planning and Performance Management Regulations, 2001.

##### **Internal auditing of performance measurements**

17. The Musina Local Municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal audit processes, as required in terms of section 45 of the MSA.

##### **No service delivery agreement**

18. The Musina Local Municipality did not enter into a service delivery agreement with the ZELPY 1903 (PTY) LTD for the provision of a municipal service, as required in terms of section 76 of the MSA and regulation 9(2) of the Municipal Planning and Performance Management Regulations, 2001.

##### **Compliance with laws and regulations**

##### **MFMA**

##### **Expenditure was incurred in contravention of or not in accordance with applicable legislation resulting in irregular expenditure**

19. Contrary to section 1 the definition of "irregular expenditure" paragraph (d) of the MFMA, section 164 of the MFMA, and SCM regulation 17(1) & 36(1) the municipality incurred irregular expenditure.

**Expenditure incurred was made in vain or could have been avoided resulting in fruitless and wasteful expenditure**

20. Contrary to section 1 of the MFMA, expenditure incurred was made in vain, and could have been avoided had reasonable care been exercised.

**Expenditure was not paid within the parameters set by the applicable legislation**

21. Contrary to section 65(2)(e) of the MFMA the municipality did not pay for expenditure within 30 days of receiving the statement or invoice from suppliers.

**The accounting officer did not adhere to his statutory responsibilities**

22. Contrary to section 62(1)(d) of the MFMA the accounting officer did not comply with his legislative responsibilities to implement effective, efficient and transparent processes of financial and risk management to prevent and detect irregular expenditure and fruitless and wasteful expenditure.

**The financial statements were not prepared in accordance with applicable legislation**

23. Contrary to section 122(1) of the MFMA the municipality did not prepare financial statements that fairly present its state of affairs as material misstatements were corrected during the audit.

**Supply chain management legislative requirements were not adhered to**

24. Contrary to section 116(1)(a)(i) of the MFMA, the municipality procured goods and services from the providers and payments were made to the providers without written signed contracts.

## **INTERNAL CONTROL**

25. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives as well as compliance with the MFMA, but not for the purpose of expressing an opinion on the effectiveness of internal control.

26. The matters reported below are limited to the significant deficiencies regarding the basis for qualified opinion paragraph, the findings on the report on predetermined objectives and the findings on compliance with laws and regulations.

- **Leadership**

**Oversight responsibility**

The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control. As a result, the financial statements were subject to material amendments resulting from the audit and non-compliance issues were noted.

- **Financial and performance management**

*Quality, reliable financial statements and management information*

The financial statements and other information to be included in the annual report are not reviewed for completeness and accuracy prior to submission for audit. The financial statements were subject to material amendments resulting from the audit.

- **Governance**

*Risk identification and management*

Internal controls are not selected and developed to prevent / detect and correct material misstatements in financial reporting and reporting on predetermined objectives.

*Auditor - General*

Polokwane

30 November 2010



AUDITOR GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*